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27 July 1979

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MEMORANDUM FOR: [REDACTED] NIO/EA

SUBJECT : Emerging Communist Trade Links
with South Korea

REFERENCE : NIO Oral Request

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NSA review(s) completed.

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The South Korean Position

2. Officials in Seoul undoubtedly are encouraged by the apparent reassessment of Chinese and North Korean trade policies. Since the mid-1970s Seoul has actively sought trade opportunities with all Communist countries. Economic motivations, while important, are clearly secondary to political considerations. South Korea almost certainly views the recent opening of trade with North Korea as a positive development. Seoul's policy toward North Korea and reunification has long called for a gradual approach starting with cultural and economic exchanges. The trade transaction falls right in line with this policy. [redacted]

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3. In its fierce diplomatic competition with North Korea, any gains Seoul could make in improved relations with China or the USSR would also be a significant victory. Recognition would be of tremendous aid in solidifying the two Korea concept that Seoul favors and Pyongyang opposes.* [redacted]

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North Korea's Shift

4. The apparent shift in North Korea's policy toward the South is unprecedented. Since talks broke off in early 1973, North Korean officials consistently had turned down proposals for limited economic cooperation, cultural exchange, and family visitation with South Korea. Pyongyang also has studiously avoided steps that would recognize the legitimacy of the Pak government. Publically and privately, the North Korean regime had held fast to a position that first required political accommodation before other exchanges could ensue. [redacted]

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* A small amount of indirect trade already occurs with the Soviet Union and Eastern Europe. Total South Korean - Communist trade amounts to roughly \$200 million annually. [redacted]

South Korea exports -- textiles, clothing, leather goods, and leaf tobacco -- account for most of the turnover. [redacted]

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9. Some Chinese-South Korean trade may have already occurred as early as last year. [REDACTED]

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[REDACTED] A published Korean commodity listing shows a large and growing figure for imports of coal from unknown sources which could be of Chinese origin. [REDACTED]

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Soviet's Standing Pat

10. In contrast to China, there is no evidence that the Soviet Union is currently attempting to expand trade with South Korea, although the Soviets clearly desire to upgrade trade relations with Seoul. Indirect trade already is permitted and South Korean goods are allowed to transit the USSR. Moscow's reluctance to further develop this market probably stems from its current strained relations with Pyongyang. Soviet officials probably view this issue as too contentious and fear that a policy change would help push North Korea inexorably toward the Chinese camp. [REDACTED]

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An Interpretation

11. With China and North Korea quietly moving to relax their trade embargos on South Korea, the strict US embargo on North Korea may be the key remaining obstacle to the further promotion of trade -- and ultimately political -- linkages in the region. [REDACTED]

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13. Pyongyang is in a similar situation as Seoul; allowing trade to develop with the South might encourage its allies to do likewise. Opening an economic front must, therefore, be a carefully considered political act. What motivated this change in policy is not known and the intent is obscure. Possibly, Pyongyang originally was signalling its willingness to return to the talks at Panmunjom and hinting that it would be willing to make limited concessions if Seoul also would compromise. Another factor which could have influenced North Korea is its poor international financial standing. Pyongyang may feel that expanding a commercial relationship with South Korea and possibly the US will help. Beijing could also have put pressure on Pyongyang to reduce tensions with the South.

14. The Chinese decision, however tentative, to allow trade with South Korea is probably based on several factors. Perhaps the most important is China's abrupt economic policy shift during the last two years. Chinese leaders are depending on foreign trade to carry an important load in the country's modernization process. Vice Premier Teng Xiaoping has characterized South Korea, along with Taiwan and Japan as a leading model of trade oriented development. Increased leverage on Pyongyang -- the result in part of economic aid given North Korea last year -- as well as the possibility that the US might respond by opening trade with Pyongyang, give Beijing a little more political freedom to deal commercially with the South.

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15. South Korea is a very close and growing market for many of the products China needs to export - coal, oil, and nonferrous metals - and from which China can cheaply import required intermediate goods - cement,

fertilizer, and steel. In the long run we expect sizable trade to develop between China and South Korea if political issues -- i.e. North Korea - do not get in the way. The new pragmatic Chinese leadership could well be testing the waters for just such a development. [redacted]

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[redacted]
Chief
China Industries Branch

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Emerging Communist Trade Links With South Korea

An Intelligence Assessment



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August 1979

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An Intelligence Assessment

*Research for this report was completed
on 21 August 1979.*

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This paper was prepared jointly by [redacted]
[redacted] of the China Division,
Office of Economic Research, and [redacted]
of the East Asia Pacific Division, Office of Political
Analysis. Comments and queries are welcome and
should be directed to [redacted]

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This paper has been coordinated with the National
Intelligence Officer for East Asia and Pacific and
with the Office of Political Analysis. [redacted]

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Emerging Communist Trade Links With South Korea ()

The South Korean Position

South Korea is taking some risks in trading with Pyongyang and Beijing; Seoul must recognize that such trade could make it easier for the United States to take a reciprocal step and drop its embargo against the North ()

Since the mid-1970s Seoul has actively sought trade opportunities with the Communist countries. South Korean economic motivations, while important, are clearly secondary to political considerations. South Korea has pressed for economic exchanges with the North as part of an effort to encourage more moderate policies in North Korea and promote gradual, step-by-step progress toward an accommodation between the two Koreas. On 23 June 1978, President Pak issued yet another in a series of appeals to Pyongyang for economic cooperation, calling for the creation of a "consultative body for the promotion of South-North economic cooperation." ()

North Korea's Shift

In its initial public reaction, North Korea labeled President Pak's offer "phony" and a "clumsy trick." This was consistent with its policy since the Seoul-Pyongyang talks during the 1971 to 1973 period. North Korean officials steadfastly turned down such proposals, as well as Seoul's calls for limited cultural exchanges and family visits across the Military Demarcation Line. The North Koreans insisted that major moves to settle outstanding political and military issues were required first to create a better climate for progress toward a North-South accommodation. ()

This marked shift in Pyongyang's approach to trade coincided with a perceptible shift in North Korean public statements on the reunification issue. In a major address on 9 September, the 30th anniversary of the Democratic People's Republic of Korea (DPRK), President Kim Il-song strongly emphasized that North Korea had left open the door for negotiations both with the United States and South Korea. Although Kim's speech included references to preconditions for talks, his tone was more moderate than in the past and he softened Pyongyang's stance by omitting a theme the North had been emphasizing in the preceding months—the call for a democratic personage to seize power in Seoul. () 25X1A

() During this period the North Koreans made some additional adjustments in their political line on reunification. There seems little doubt that the cautious movement to develop indirect trade with Seoul was an integral part of the moderating trend in their public approach to reunification talks. ()

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Chinese – South Korean indirect trade, though small, is increasing rapidly. Official Hong Kong port statistics indicate that Chinese goods shipped to South Korea reached \$7 million in the first quarter of 1979, compared with less than \$1 million in the same period last year.

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[redacted] A published Korean commodity listing shows a large and growing figure for imports of coal from unknown sources which could be of Chinese origin.

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Possible Chinese Goals

The caution the Chinese have been exercising while apparently exploring an increase in trade contacts with South Korea almost certainly results from its concern that major, rapid changes in policy toward Seoul could alienate Pyongyang and cause North Korea to move closer to the Soviet Union. Despite this concern, Beijing's decision to move forward tentatively may be based on both economic and political considerations:

- Economic incentives seem fairly straightforward. Chinese leaders are depending on foreign trade to play an important role in the country's modernization process. Vice Premier Deng Xiaoping has characterized South Korea, along with Taiwan and Japan, as a leading model of trade oriented development. South Korea is a close and growing market for many of the products China needs to export—coal, oil, and nonferrous metals—and from which China can cheaply import required intermediate goods—cement, fertilizer, and steel.
- While highly speculative, the possibility that Beijing sees trade with Seoul in a broader context also may be worth considering. China is aware that the United States has said it will develop contacts with North Korea only if Pyongyang's allies take commensurate steps to improve their relationships with the South. The Chinese may believe that any significant increase in trade with Seoul might inevitably become known and thus contribute to a reevaluation of US trade

policy toward North Korea. To this end, China may have in fact encouraged North Korea to change its trade policy toward South Korea. Beijing's motive might be to promote some form of accommodation between Pyongyang and Washington as well as between the two Koreas, and thereby promote stability on the peninsula. [REDACTED]

Soviets Standing Pat

A modest amount of indirect trade between South Korea and the USSR and Eastern Europe already occurs. Total South Korean trade with Warsaw Pact countries amounts to roughly \$150-200 million annually. [REDACTED]

[REDACTED] South Korean exports—textiles, clothing, leather goods, and leaf tobacco—account for most of the turnover. South Korean goods also are allowed to transit the USSR. [REDACTED]

In contrast to China, there is no evidence that the Soviet Union currently is attempting to expand trade with South Korea, although the Soviets clearly desire to upgrade trade relations with Seoul. We assume that they are aware of the recent North Korean coal shipments to South Korea. Moscow's reluctance to move on this front probably stems from its current strained relations with Pyongyang. Soviet officials probably view this issue as too contentious and fear that policy change would help push North Korea even closer to the Chinese camp. [REDACTED]

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